



COMMONWEALTH of VIRGINIA

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TO: Fiscal Officers of All State Agencies and Institutions

FROM: David A. Von Moll 

SUBJECT: Cost Recovery Audit Program

In accordance with § 2.2-1822.1 of the Code of Virginia, the Department of Accounts will soon award a contract for cost recovery audit services. This specialized audit will entail the electronic analysis of disbursement files and the physical examination of contractual and procurement records related to payment transactions involving state funds. Its purpose is to identify and recover duplicate payments, overpayments, overlooked discounts and other types of erroneous payments.

Private sector companies began using this service in the early 1970s. More recently, federal, state, and local governments have embraced the cost recovery audit concept. The Commonwealth pays nothing for this service; contractor costs are deducted from recoveries, so recovery audits are self-funding. Also, these audits provide insight for improving operational efficiency and internal control in the disbursement function. At this time, cost recovery audits are a “best practice” for disbursements management.

Four state governments with cost recovery audits completed or underway have confirmed to us that these audits are minimally intrusive. Auditors will begin the process using proprietary data mining software applied to electronic disbursement files including centrally maintained CARS and Small Purchase Charge Card payment databases, as well as decentralized higher education institutions’ payment databases. While paper document review is minimized initially, the auditors will need to examine paper or digitized documents for some procurements, contracts, and vendor payments for fiscal years 2002 through 2004. **Therefore, please direct your staff to postpone sending (or purging if digitized) FY 2002 records to long-term storage until the audit is complete.** We expect the engagement will begin in July and be completed prior to the end of the 2006 fiscal year.

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You will receive more information after the contract is awarded. If you have general questions about this new program, please contact Randy McCabe (randy.mccabe@doa.virginia.gov or 804-225-2244). For specific information on document retention and procedural matters, you may contact Mark Murray (mark.murray@doa.virginia.gov or 804-225-3325), who will administer the statewide contract for cost recovery audit services. I thank you in advance for your assistance and cooperation.

DAV/mjm

cc: R. Dan Hix, Finance Policy Director

State Council of Higher Education for Virginia

Lewis R. McCabe, Director, General Accounting

Mark J. Murray, Financial Management Analyst, General Accounting